Directors
M.P. Hosking FCPA
N.T.C. LaBrooy FCPA
G. Taranto CA
M.W. Hardacre CPA
D.A. Szepfalusy CPA
C.K. Abbott CA

Consultant
G.W. Seers FCPA

INSIDE

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The essential 30 June guide

The end of the financial year is fast approaching. We outline the areas at risk of increased ATO scrutiny and the opportunities to maximise your deductions.

For you

Opportunities

Take advantage of the 1 July 2024 tax cuts by bringing forward your deductible expenses into 2023-24. Prepay your deductible expenses where possible, make any deductible superannuation contributions, and plan any philanthropic gifts to utilise the higher tax rate.

Bolstering superannuation

If growing your superannuation is a strategy you are pursuing, and your total superannuation balance allows it, you could make a one-off deductible contribution to your superannuation if you have not used your $27,500 cap. This cap includes superannuation guarantee paid by your employer, amounts you have salary sacrificed into super, and any amounts you have contributed personally that will be claimed as a tax deduction.

And, if your superannuation balance on 30 June 2023 was below $500,000 you might be able to access any unused concessional cap amounts from the last five years in 2023-24 as a personal contribution. For example, if you were $8,000 under the cap in each of the last 5 years, you could contribute an additional $40,000 and take the tax deduction in this financial year at the higher personal tax rate.

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To make a deductible contribution to your superannuation, you need to be aged under 75, lodge a notice of intent to claim a deduction in the approved form (check with your superannuation fund), and get an acknowledgement from your fund before you lodge your tax return. For those aged between 67 and 75, you can only make a personal contribution to super if you meet the work test (i.e., work at least 40 hours during a consecutive 30-day period in the income year, although some special exemptions might apply).

And, if your spouse's assessable income is less than $37,000 and you both meet the eligibility criteria, you could contribute to their superannuation and claim a $540 tax offset.

If you are likely to face a tax bill this year, for example, you made a capital gain on shares or property you sold, then making a larger personal superannuation contribution might help to offset the tax you owe.

Please contact us if you are considering making any superannuation contributions prior to 30 June 2024.

Investment property owners

If you do not have one already, a depreciation schedule is a report that helps you calculate deductions for the natural wear and tear over time on your investment property. Depending on your property, it might help to maximise your deductions.

Risks

Work from home expenses

Working from home is a normal part of life for many workers, and while you can't claim the cost of your morning coffee, biscuits or toilet paper (seriously, people have tried), you can claim certain additional expenses you incur. But, work from home expenses are an area of ATO scrutiny.

There are two methods of claiming your work from home expenses; the short-cut method, and the actual method.

The short-cut method allows you to claim a fixed 67c rate for every hour you work from home. This covers your energy expenses (electricity and gas), internet expenses, mobile and home phone expenses, and stationery and computer consumables such as ink and paper. To use this method, it's essential that you keep a record of the actual days and times you work from home because the ATO has stated that they will not accept estimates.

The alternative is to claim the actual expenses you have incurred on top of your normal running costs for working from home. You will need copies of your expenses, and your diary for at least 4 continuous weeks that represents your typical work pattern.

Landlords beware

If you own an investment property, a key concept to understand is that you can only claim a deduction for expenses you incurred in the course of earning income. That is, the property needs to be rented or genuinely available for rent to claim the expenses.

Sounds obvious but taxpayers claiming investment property expenses when the property was being used by family or friends, taken off the market for some reason or listed for an unreasonable rental rate, is a major focus for the ATO, particularly if your property is in a holiday hotspot.

There are a series of issues the ATO is actively pursuing this tax season. These include:

- **Refinancing and redrawing loans** – you can normally claim interest on the amount borrowed for the rental property as a deduction. However, where any part of the loan relates to personal expenses, *Continued over…*

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or where part of the loan has been refinanced to free up cash for your personal needs (school fees, holidays etc.,), then the loan expenses need to be apportioned and only that portion that relates to the rental property can be claimed. The ATO matches data from financial institutions to identify taxpayers who are claiming more than they should for interest expenses.

- **The difference between repairs and maintenance and capital improvements**. While repairs and maintenance can often be claimed immediately, a deduction for capital works is generally spread over a number of years. Repairs and maintenance expenses must relate directly to the wear and tear resulting from the property being rented out and generally involve restoring the property back to its previous state, for example, replacing damaged palings of a fence. You cannot claim repairs required when you first purchased the property. Capital works however, such as structural improvements to the property, are normally deducted at 2.5% of the construction cost for 40 years from the date construction was completed. Where you replace an entire asset, like a hot water system, this is a depreciating asset and the deduction is claimed over time (different rates and time periods apply to different assets).
- **Co-owned property** – rental income and expenses must normally be claimed according to your legal interest in the property. Joint tenant owners must claim 50% of the expenses and income, and tenants in common according to their legal ownership percentage. It does not matter who actually paid for the expenses.

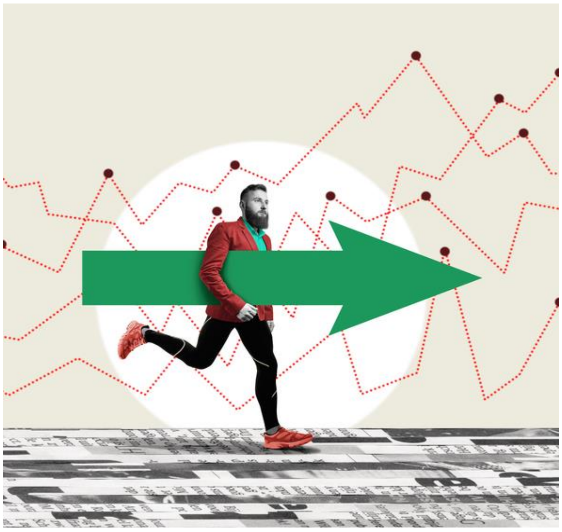
Gig economy income

It's essential that any income (including money, appearance fees, and 'gifts') earned from platforms such as Airbnb, Stayz, Uber, OnlyFans, youtube, etc., is declared in your tax return.

The tax rules consider that you have earned the income "as soon as it is applied or dealt with in any way on your behalf or as you direct". If you are a content creator for example, this is when your account is credited, not when you direct the money to be paid to your personal or business account. Squirrelling it away from the ATO in your platform account won't protect you from paying tax on it.

Since 1 July 2023, the platforms delivering ride-sourcing, taxi travel, and short-term accommodation (under 90 days), have been required to report transactions made through their platform to the ATO under the sharing economy reporting regime. This is the first year that the ATO will have the income tax returns of taxpayers to match to this data.

All other sharing economy platforms will be required to start reporting from 1 July 2024. If you have income you have not declared, do it now before the ATO discover it and apply penalties and interest.



For your business

Opportunities

Bonus deductions

There are a series of bonus deductions available to small business in 2023-24, these include the instant asset write-off, energy incentive, and the skills and training boost.

Announced in the 2023-24 Federal Budget, the increase to the instant asset write-off threshold enables small businesses with an aggregated turnover of less than $10 million to immediately deduct the full cost of eligible depreciating assets costing less than $20,000. In the 2024-25 Federal Budget, the Government extended this measure to 30 June 2025.

Without these measures, the instant asset write-off threshold would be $1,000.
However, legislation to enact the 2023-24 measure has not yet passed Parliament.

Similarly, the $20,000 energy incentive that provides an additional 20% deduction on the cost of eligible depreciating assets or improvements to existing depreciating assets that support electrification and more efficient use of energy in 2023-24, is not yet law.

Assuming both measures pass Parliament by 30 June 2024, any assets need to be first used or installed ready for use, or the improvement costs incurred, between 1 July 2023 and 30 June 2024 to be written off in 2023-24.
What is certain is the bonus 20% deduction for eligible expenditure for external training provided to your employees. The 'skills and training boost' is available to businesses with an aggregated annual turnover of less than $50 million. To claim the boost, the training needs to have been provided by a registered training provider and registered and paid for between 29 March 2022 and 30 June 2024. Typically, this is vocational training to learn a trade or courses that count towards a qualification rather than professional development.

For companies

If it makes sense to do so, bring forward tax deductions by committing to directors' fees and employee bonuses (by resolution), and paying June quarter super contributions in June.

Risks

Tax debt and not meeting reporting obligations

Failing to lodge returns is a huge 'red flag' for the ATO that something is wrong in the business. Not lodging a tax return will not stop the debt escalating because the ATO has the power to simply issue an assessment of what they think your business owes. If your business is having trouble meeting its tax or reporting obligations, we can assist by working with the ATO on your behalf.

Need support or have questions? Talk to us today about maximising your outcomes and reducing your risks.

Fee From Refund Service

To help make tax time as simple and stress-free as possible, we can deduct our fee from your tax refund. With your authority, the ATO will deposit your tax refund into our Trust Account, we will deduct our fee, and then the balance of your refund will be forwarded to your nominated bank account, eliminating the need for you to make payment to us upfront.

If you wish to take advantage of our fee from refund service, please let your Accountant know and we will arrange for you to sign a Trust Account Authority at your tax appointment or when we send your Tax Return to you for signature.

Simplify your tax season by taking advantage of our fee from refund service, at no additional cost to you.

ATO fires warning shot on trust distributions

The ATO has warned that it is looking closely at how trusts distribute income and to who.

The way in which trusts distribute income has come under intense scrutiny in recent years. Trust distribution arrangements need to be carefully considered by trustees before taking steps to appoint or distribute income to beneficiaries.

What does your trust deed say?

An area of concern is that trustees are not considering the trust deed before income is appointed. The answer to what the trust can do, and who it can allocate income to and how, is normally in the trust deed. This should be your first point of call.

Review your deed

- Conduct a review of the trust deed and any amendments to ensure trustees are making decisions consistent with the terms of the deed;
- **Check the trust vesting date.** The trust deed will specify what happens when the trust vests. If the trust vests, the trustees might be directed to distribute the income and property of the trust to particular beneficiaries. The trustee may no longer have the discretion to decide who to appoint income or capital to;
- **Check who the intended beneficiaries are**, and also keep in mind that some beneficiaries might have different entitlements to income and capital under the trust deed;
- **Timing and requirements for resolutions** - Check the deed for any conditions and requirements for trustee resolutions, including the need to have the resolution in writing and the timing of when it's required to be made. For example, the deed might require trustees to take certain actions before 30 June;
- If you are looking to **stream capital gains or franked distributions** to certain beneficiaries, check the trust deed doesn't prevent this and the streaming requirements have been met.

Family trust and interposed entity elections

A family trust election helps wrap the workings of the trust around a specific individual's family group. These elections can help protect trust losses, company losses, and franking credits but can also cause significant tax problems if they are used incorrectly.

An interposed entity election makes an entity a member of the family group of an individual.

Where these elections are in place, it is essential that trustees understand the implications before making any decisions on distributions. Distributions of trust income outside the specified individual's family group will trigger family trust distribution tax at penalty rates.

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Who receives the benefit?

The ATO is also on the lookout for arrangements where amounts are allocated or appointed to beneficiaries, but they don't receive the real financial benefit of the distribution. If the arrangement has the effect of reducing the overall tax paid on the income of the trust, then this will normally increase the level of risk involved and attract the ATO's attention.

Increased reporting on tax returns

Changes have been made to capture more information on the tax return about how trusts distribute income. These include:

- **Trust tax return** – four new capital gains tax labels have been added. This information should be provided to beneficiaries to match what is reported in their returns.
- **Beneficiaries** – all beneficiaries of trust income will be required to lodge a new trust income schedule. This schedule should align to your distributions as set out in the trust's statement of distribution.

Trusts can be an excellent vehicle for many reasons including the flexibility to determine how income is distributed. The cost of that flexibility is strong controls and compliance.

The ATO is increasingly strident about how trusts are distributing income, and the tax impact of those distributions. It's important for trustees to get it right because if trust distributions are found to be invalid, the tax ramifications can be significant.

-End-

What's changing on 1 July 2024?

Here's a summary of the key changes coming into effect on 1 July 2024:

- Tax cuts reduce personal income tax rates and change the threshold:
  - The 19% tax rate reduces to 16%
  - The 32.5% tax rate reduces to 30%
  - The threshold above which the 37% tax rate applies increases from $120,000 to $135,000
  - The threshold above which the 45% tax rate applies increase from $180,000 to $190,000
- Superannuation guarantee increases from 11% to 11.5% - check the impact on any salary package arrangements.
- Superannuation caps increase from $27,500 to $30,000 for concessional super contributions and from $110,000 to $120,000 for non-concessional contributions.
- Luxury car tax threshold increases to $91,387 for fuel-efficient vehicles and $80,567 for all others.
- Car limit for depreciation increases to $69,674.
- $300 energy relief credit for households comes into effect (credited automatically quarterly).

For business

- $325 energy relief credit for small business commences (for small businesses that meet the relevant State or Territory definition of a 'small customer').
- $20k instant asset write-off extended to 30 June 2025 (subject to the passage of legislation).

Government warns of 'malicious' myGov scammers

The Government has urged Australians to be vigilant regarding scammers who target ATO log-in details to commit tax fraud. The ATO has received a large number of reports of scammers

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using fake myGov sites to steal myGov sign-in details that can be used to commit

tax and refund fraud in other people's names.

They will often use text message or email to lure people into clicking a link, using phrases such as 'You are due to receive an ATO Direct refund' or 'You have a new message in your myGov inbox — click here to view.'

The ATO or myGov will never send an email or text message with a link to sign in to myGov. Last year, the ATO introduced new fraud controls to help protect Australians from online identity theft, including the use of myGovID to strengthen security during the sign-in processes on myGov accounts, making it more difficult for criminals to gain access

If you are unsure if you have received a scam message from the ATO, please do not click on any links, and get in touch with us. Alternatively, you may refer to the ATO website for more information https://www.ato.gov.au/using-our-website/easier-to-read-information/is-it-a-scam-easy-read

Federal Budget proposals 2024-2025

Expanding CGT regime for foreign residents

The CGT regime will be amended from 1 July 2025 to broaden the type of assets subject to CGT for foreign residents and introduce a modified 365-day principal asset testing period. Also, foreign residents disposing of shares and other membership interests exceeding $20 million in value will be required notify the ATO prior to the transaction.

Capping indexation of HELP debts

Student HELP debts will be cut by changing the way indexation is calculated. From 1 June 2023, it will be the lower of the CPI or the Wage Price Index (WPI), reducing the debt accumulated by more than 3 million Australians when the CPI spiked to 7.1%. This legislation is yet to be passed.

Superannuation on paid parental leave

As previously announced, from 1 July 2025 superannuation will be paid on Paid Parental Leave payments from 1 July 2025. Eligible parents will receive an additional payment based on the superannuation guarantee (i.e. 12% of their PPL payments), as a contribution to their superannuation fund.

This payment is in addition to the changes that saw families provided with an extra two weeks of leave (22 weeks total), which will increase to 24 weeks from July 2025 and 26 weeks from July 2026). This legislation is yet to be passed.

The Future Made in Australia Initiative

The Government has announced a bold initiative to make Australia a "renewable energy superpower."

The $22.7 billon series of initiatives is designed to foster and encourage significant private sector investment into priority industries necessary to harnessing the economic and industrial benefits of the move to net zero and securing Australia's place in a changing global economic and strategic landscape. The Future Made in Australia Act will establish the policy framework - the focus will be on industries in which Australia has a genuine economic advantage, where it contributes to an orderly path to net zero, where it builds on the capabilities of the people and regions and improves Australia's national security and economic resilience.

As part of the Future Made in Australia initiative, the Government will provide an estimated $19.7 billion over ten years from 2024–25 to accelerate investment in Future Made in Australia priority industries including renewable hydrogen, green metals, low carbon liquid fuels, refining and processing of critical minerals and manufacturing of clean energy technologies including in solar and battery supply chains.

Market Update

With Winter now officially underway, some might be heading north to warm up and others may lean into the cold on the snowfields. Whichever you choose, don't forget the approaching end of financial year.

A slight increase in the Consumer Price Index last month, to 3.6% from 3.5% in March, has led some economists to predict we'll be waiting longer for the first official interest rate cuts, perhaps until the end of next year, with little to no chance of a rate rise in the meantime. While inflation has been relatively stable over the past five months, this is the second monthly increase in a row. The biggest prices increases were in the housing, food and beverages, alcohol and tobacco, and transport sectors. Retail spending continues to be weak. The 0.1% increase in turnover in April wasn't enough to make up for a 0.4% drop in March.

The higher-than-expected inflation figures saw Australian share prices take a tumble after reaching a welcome high mid-month. The ASX200 finished the month on a positive note, slightly higher for the month of May. In the US, troubles in the tech sector and a global bond sell-off saw small losses on the Dow, the Nasdaq and the S&P 500 while European markets in London, France and Germany also finished the month on a low.

A strong US dollar along with the uptick in Australia's inflation data saw the Aussie dollar fall from a mid-month peak of just over US67 cents.

Keeping Your Details Up-to-Date: A Friendly Reminder

As we continue to assist you with your tax obligations, we want to emphasise the importance of keeping your details up-to-date. Whether you're a long-term client or a recent addition to the SWON family, accurate information ensures that we can provide you with the best possible service.

Why Is It Essential?

1. **Smooth Communication**: Having your correct contact information allows us to communicate with you effectively. Whether it's sending you important ATO correspondence, advising you of changes to our practice, or general communication about your accounting and tax needs, we want to make sure our communications reach you promptly.

Personalisation: When we know your preferences and circumstances, we can tailor our services and communications to meet your unique needs. Whether you prefer that we only communicate with you via email, or that invoices are sent to a particular person in your organisation, accurate details enhance your experience.

2. **Legal Compliance**: Various regulations require us to maintain accurate records. By keeping your details current, we ensure compliance and protect your privacy.

How Can You Help?

1. **Update Your Information**: If you've recently moved, changed your phone number, updated your email address, or changed your bank account details, please let us know.
2. **Regular Check-ins**: Consider reviewing your details periodically. Life changes and we want to stay informed about any updates in your life.
3. **Emergency Situations**: Accurate details are crucial during emergencies. Whether it's a medical situation or a natural disaster, having your correct information ensures we can assist you promptly.

Ways to Reach Us

- **Phone**: Call our office on 03 9781 2633.
- **Email**: Send us an email at accountant@shepard.com.au

Thank You!